



Actuarial & Employer Services Branch
P.O. Box 942709
Sacramento, CA 94229-2709
TTY for the Speech and Hearing Impaired - (916) 795-3240
(888) CalPERS (225-7377) FAX (916) 795-3005

September 14, 2010

AGENDA ITEM 3f

**TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION
COMMITTEE**

- I. SUBJECT:** Public Employee Compensation Update
- II. PROGRAM:** Actuarial & Employer Services
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

The purpose of this agenda item is to provide an update on the activities occurring statewide and at CalPERS to address the widespread concerns about the compensation and benefits paid to certain public employees.

- Legislation has been introduced to address the issues of disclosure and transparency of public agency employee compensation as well as what compensation may be used in calculating retirement benefits. CalPERS has provided technical assistance on these efforts. An update will be provided on the status of these bills at the Committee meeting to incorporate end of session information.
- The three subgroups of the Public Employee Compensation and Benefits Task Force (Transparency, Compensation, Risk Pooling) were tentatively scheduled to meet on August 25, 2010. However, given the numerous end of legislative session activities required of many of the subgroup participants, the meetings were postponed. The Compensation and Risk Pooling subgroups are scheduled to meet September 7, 2010. An update on those meetings will be provided at the Committee meeting.
- CalPERS continues to cooperate with the Office of the Attorney General in its investigation surrounding the salaries and other compensation of public employees.

- The Treasurer made seven recommendations which were discussed at the August 17, 2010 Committee meeting. Three of the recommendations have already been addressed and therefore no further analysis is required. Those three are as follows.
 - Two of the recommendations are legislative options to place caps on compensation for retirement purposes. Given the introduction of Assembly Bill 194 (Torrico) which addresses this issue, no further analysis on those recommendations is required.
 - One recommendation is to create automated triggers which require reviews of compensation reported for active members throughout their career rather than mainly at retirement. Although active member reviews are not feasible with the existing legacy systems, this recommendation was already planned with the implementation of the my|CalPERS system in 2011. Increased analysis of reported compensation will be facilitated by the system via a combination of automated triggers and additional query capabilities. The intent and scope of the additional reviews will be to identify outliers and ensure the compensation being reported for those cases is in compliance with the statutes and regulations for retirement purposes.

CalPERS staff have begun analyzing the four remaining recommendations as follows.

- Three recommendations are to develop new CalPERS reports. CalPERS staff is evaluating possible report options and will bring this to the Committee in October. The three reports are:
 - a report to the Committee on Compensation Review Unit activities,
 - a report on salary increase determinations for groups or classes smaller than 15 employees, and
 - an annual public report on compensation trends.
 - One recommendation is to review the group or class criteria and determine if refinements should be made. The Compensation subgroup of the Task Force will be addressing this issue.
- The draft report of the public agency review of the City of Bell by the Office of Audit Services is still in progress.
 - The public agency reviews for the current fiscal year are expected to be posted on the CalPERS website by October 2010.

- The next Office of Audit Services Quarterly Status Report to the Finance Committee will be presented September 14, 2010 and will include highlights of significant compensation and membership findings from recent public agency reviews and resolution status.
- Discussions have been initiated to establish procedures and guidelines for CalPERS staff to notify supervisors and senior managers when they become aware of public service issues such as unusually high compensation and salary increases reported to our system.
- Research is nearly completed on the compensation reported for members with compensation exceeding \$400,000 per year to ensure compliance with our statutes and regulations.
- Staff has begun identifying members with compensation earnable over the Internal Revenue Code 401(a)(17) compensation limit of \$245,000. Once this is completed, a sample group will be determined and review of those members will begin. Depending upon the results of the sample review, further in-depth review may be undertaken.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans, but is part of the regular and ongoing workload of the Actuarial & Employer Services Branch and other affected branches.

VI. RESULTS/COSTS:

None

LORI MCGARTLAND, Chief
Employer Services Division

ALAN MILLIGAN
Chief Actuary